

BANKING FRAUDS IN INDIA: TRENDS AND LEGAL CHALLENGES

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ABSTRACT

Now a day's financial transactions are meted out on computer, mobile phones and internet seem to be very difficult for the persons who aren't perfect in using such electronic devices. So there's need of IT to handle lengthy and sophisticated transactions within the banks. It's made banking procedures easy, convenient, fast and professional, which is one in all the best landmarks in banking history. Information and communication technology (ICT) has entered and progress in the banks with its identity as "E-Banking", which implies electronic banking. When bank transactions are conducted electronically then it's termed as "E-Banking". It's paperless, easy, and speedy, without geographical boundaries and it incurs low cost. In E-Banking, majority of bank transactions are allotted through internet, so internet is backbone of E-Banking. However with the introduction of Technology in Banking the Frauds has increased an excessive amount of extent. Internet Banking Fraud could be a "Fraud of robbery devoted using online technology to illegally removing money from an account of a customer". The term "Internet Fraud" generally refers to any kind of Fraud scheme that uses one or more online services to current Fraudulent solicitations to prospective victims, to conduct fraudulent transactions, or to broadcast the proceeds of fraud to financial institutions or to others connected with the plan. Internet fraud can occur on computer programs like chat rooms, e-mail, message boards, or internet sites. Now internet banking is broadly accustomed check account details, make purchases, pay bills, transfer funds, print statements etc. But due to some unawareness or silly mistakes one can easily make up the trap of cyber criminals. Cyber crimes are touching all the facet of our life and our banking transactions also are full of them. Whether it's credit frauds, ATM frauds or Internet banking frauds, cases are occasionally reported in India. The occurrence and numbers of those cases are growing day by day and there's a powerful need of stringent cyber law in India.

Keywords: Cyber, Banking, Frauds, Internet Banking Frauds, Technology Development, Legislature.

Introduction

Technological development has transformed the manual transactions of banking into electronic sort of banking transaction. The reforms in banking sector were introduced in earlier 1990s. Till 1980 banks were offering their customers to try and do banking transactions through just one channel that's by visiting the bank and after the reforms now the banks are offering to their customers multiple channels for doing the banking transactions which to faster than the manual banking process. Technology development has brought the vast change in the banking sector. E- Banking offers banking services through electronic media. Private sector banks at initial stage weren't fully computerized whereas new private sector banks and foreign banks were fully computerized from their establishment itself. Although there are such a lot of advantages of e-banking, due to technological development, the technological development in banking sector has given rise to varied challenges. The assorted challenges faced while using e-banking services are due to operational risks, technological issues, security issues and legal issues. The assorted security issues faced are unauthorized access to data, data stealing by the hackers, causing data damage or loss by virus. There's a technology innovation in banking sector together with challenges faced. The foremost common challenge is referring to security and also legal. Taking into consideration the rise in number of e-banking fraud cases the depository financial institution of India acting in the capacity of regulator and supervisor has issued guidelines to safeguard the frauds and each now so as per situational changes is making changes in guidelines by issuing fresh one and is additionally advising the banks as the way to stop the e- banking frauds from

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being committed by the fraudsters. Hence A assessment on the laws and legislations associated with e-banking frauds is crucial so as to seek out an answer on the demographic issue that's going down in large parts of India and cross the border. Laws cannot be enforced within the absence of favorable consensus. The failure of strict implementation of laws, and to watch e-banking frauds, bears that out. If preventive steps aren't taken by banks and customers it'll cause great financial losses to India and can affect the Indian economy so fieldwork can get your hands on problem oriented solutions that the lawmakers can adopt and fill the theoretical gaps accordingly.

Objective of Study

Contemporary Indian banking development has witnessed a flurry of Banking Fraud cases coming into public limelight. These instances occur because of procedural lapses and technical advancements in the 21st Century. This study has focused on Banking Frauds which are conspicuous and pose an excellent threat to the nice health of excellent banking industry in India. The rationale for that specialize in these existing procedure traditional frauds is that almost all of existing instances are caused by procedural lapses in day to day working of banking institutions and therefore the concerned banks in unwritten "Don't ask Don't tell" policy try and resolve these cases themselves. The Banking Frauds cases dealt so by the concerned bank, may recur in absence of a correct legal framework. During this manner, an awesome number of fraud cases are resolved themselves by the banking institutions without reporting to the established criminal justice system and after all, even without bringing it under mass-public scrutiny. To this, study has been conducted Make very specific following objectives has been covered within the Study:

- To trace out the varied traditional furthermore as modern technological frauds prevailing within the industry.
- To seek out out the relevancy and adequacy of Indian law on Banking Frauds.
- To evaluate the trends of Banking Frauds.
- To seek out out the prevailing preventive and curative measures as are in situ to handle the menace of Banking Frauds.

Review of Literature

(Chavda, 2014) the research states that one among the explanation for increase in e-banking frauds is, as amongst people in India there's lack of computer literacy in order that they not know the way to use the e-banking services and if they need to use, then they need to require help of somebody which can cause customer disclosing his secret data and which might be misused by fraudsters. The Knowledge about using the pc is must if the person wants to use the e-banking services otherwise the chance of e-banking frauds goes high.

(Singh, 2012) has defined online banking as system which allows customers to use banking services from an individual computer by connecting with the banks computer over wires. E-banking benefits the banks by reducing their cost and also catching up the shoppers from the remotest areas. E-banking is benefited to the purchasers also as 24X7 banking services are available to them, banking services are provided to the purchasers at their home or offices another benefits are electronic transfer of funds, online bill payments, anytime cash withdrawals from ATMs, Credit card facilities, customers can access the accounts online through internet banking etc.

(Jokhi, 2014) article states that Mr. Milind Deora, the ex minister of State for Communication and knowledge Technology, had said that the entire loss suffered due to e-banking frauds by Indians as per bank of India report was around Rs.54 crores in half year of 2013-14. E-banking frauds are increasing annually out of which some cases are reported et al. go unreported in India thanks to lack of cyber law awareness in India.

(Parameshwara, 2013) article states that G. Gopalkirshna committee founded by RBI in 2011 recommended certain suggestions out of which one in every of it states that fraud review council must be formed in all banks by the fraud risk management group to review frauds and take preventive steps regularly, but yet the suggestion given has not been implemented by all the banks providing electronic banking services to their customers.

(Sharma and Singh, 2011) research states that 64.83% respondents have agreed that mobile banking isn't secured while downloading certain applications customers sink to fraudsters to access their data stored on mobiles easily for instance through their messages, gallery and various files and folders containing confidential data so there's threat of knowledge theft which may cause the purchasers to be the victim of e-banking frauds.

Rational of Study

E-banking frauds is one in all challenges faced by the society with the event if the data technology. Government and legislatures have framed the rules and legislations regarding e-banking frauds but yet the laws and rules don't seem to be fully and effectively implemented in India. The laws need quick amendments because the changes and advance development in technology is resulting in more and more number of fraud cases and situation is formed complicated. There's hardly any research work on this subject or issue in India. The Indian literature on this subject is a smaller amount. There's a requirement to form awareness amongst the shoppers regarding various forms of e-banking frauds and about the preventive measures to be taken by customers. The training is to be provided to the workers handling e-banking system on the regular basis. Banks have to upgrade the system regularly.

Hypothesis for Study

H₀₁: There are no significant frauds in the Banks.

H₀₂: There is no significant impact of frauds in the Banking System.

Research Methodology

The methodology is generally a suggestion system for solving a problem, with specific components like phases, tasks, methods, techniques and tools. In simple word it describes the way the research has been administered. It includes overall research design, setting objectives, the format for data collection, the data collection method, the sample design, the numerous tools and techniques won't to present the knowledge and last but not the littlest amount the analysis procedure.

Source of Data

The study is very supported by secondary data. The Source of secondary data is especially RBI Annual Report. Other sources are various online data available on internet. The info are used using various statistical methods, and are modified for the presentation.

Results and Analysis

Even after strict order of RBI regarding implementation of early warning signals by Lenders, the Banks frauds have almost doubled the within the previous year, due to delayed detection. In June, 2020, Bank frauds amounting to over Rs 1.85 lakh crore were reported on compared to Rs 71,500 crore in the previous year, as mentioned in RBI's annual report for 2019-20. Frauds are mainly arising in the loans and Advances, both in terms of number and value. There was a stress of huge amount frauds, with the most 50 credit related frauds comprising of around 75% of the whole amount of frauds as given in 2019-20, as shown in annual report. Public sector banks showed a rise of around 234% rise in fraud which constitutes around 80% of the whole such reported instances. On the opposite hands Private Banks, reported a rise of quite 500%, formed over 18% of the entire fraud cases.

Significant Rise in Reported Fraud Cases (In Rs. Crore)

Entity	2017-18	2018-19	2019-20
State-Owned Banks	38260.87	63283.00	148400.00
Private Banks	2478.25	6742.00	34211.00
Foreign Banks	256.09	955.00	972.00
Financial Institutions	164.70	553.00	2048.00
Small Finance Banks	6.19	8.00	11.00
Payments Banks	0.90	2.00	2.00
Local Area Banks	0.04	0.02	0.43
Total	41167.04	71543.02	185644.43

Source: RBI Annual Report 2019-20

Concentration of Bank Frauds (In Rs. Crore)

Fraud Type	2018-19	2019-20
Advances	64,548	182,051
Off Balance Sheet	5,538	2,445
Forex	695	54
Card/Internet	71	195
Deposits	148	616
Cash	56	63
Cheques	34	39
Clearing Accounts	209	7
Others	244	174
Total	71,543	185,644

Source: RBI Annual Report 2019-20

Seeing the above, both the hypothesis that there are no significant frauds in the Banks and there is no significant impact of frauds in the Banking System is rejected.

Various Legislative Measures for E-Banking Frauds

- As per the RBI guidelines each bank and its branch have to have the formation of the special committee with the reasonable number of members. The committee formed on take care of the problems regarding banking frauds and what efficient preventive steps that may be taken so as to forestall such banking frauds.
- In keeping with the RBI guidelines each and every bank in India or foreign banks having branch in India must have compulsorily a separate department specifically for managing the banking frauds on find the ways to regulate over banking frauds and also the cases which come to the bank must be resolved by them or they have to guide to the purchasers as how their cases is resolves and also the fraudster may be caught and therefore the money may be recovered.
- As per the RBI norms each bank must have a review council. The duty of the fraud review council is to determine the schemes implemented for bringing down the quantity of banking frauds is effective or not the rules, norms and laws framed regarding banking frauds are properly implemented or not.
- It's one among the obligations of the bank. Banks have to have security policy and find it approved by board of directors before implementing the identical. Banks must have a separate department for taking care of the protection of the knowledge system through which e-banking transactions are done and also the data is saved in system should have great security.
- The RBI has issued an inventory of requirements which are to be taken by the banks from their customers before opening the account or anytime after this guideline is issued from the prevailing customers. The aiming to the sentence know your customer means the bank should know their customer before going in a relation with them and opening the account.
- Banks have to make their customers aware of the danger involved in using the net banking services and on what precautionary steps to be taken by them so as to stop the identical. According the RBI it the requirement and duty of the bank to create their customer aware of the preventive measures to be taken when using internet banking services. The online page of the bank must contain such details. Also the bank is required to be displayed at the place which is well accessible to customers at the bank such details. Frequently and timely bank can pass away the information of preventive measures to their customers by sending them messages on the mobile number of the customer registered with the bank.
- Banks most significant duty is to train their customers because this is often the case within which within the common language understood the shoppers are educated but they're said uneducated within the field of e-banking services. The requirement to incline proper information's and guidelines and time to time changes what are happening within the E-banking services. Banks have to make customers know different or kind of e-banking frauds there are being committed and therefore the remedial measures are to be told to them which is able to ultimately help in preventing the e-banking fraud cases and should help in stopping the commission of e-banking frauds. And during this manner bank can show their concern towards the shoppers and an honest reputation and goodwill are often built up by the banks by doing such reasonably things as organizing free seminars on this subject and then on. And this can be one in all the rules of the RBI also which the banks need to follow compulsorily.
- Banks need to submit the report of review of internet industry to the bank of India time to time. The timely review that's the working and functioning of the net banking industry must be reported to the RBI. This is often done to verify that are the banks having full proof safe and secured internet industry and are they upgrading the web banking industry and also to test whether the banks are maintaining the minimum standards of internet industry. This may make sure that the shoppers are safe or not and can be within the interest of the general public at large.
- Banks need to inform about the preventive measures to be taken by the purchasers while using the e-banking services. The bank should display the identical at the acceptable place where the customer has quick access to the identical and also the information is to be displaced in number of languages say per se English, Hindi, Marathi, Gujarati close to on depends upon the locality where the bank is situated and also the people leaving around and having the bank accounts within the bank.

- The staff bank handling the e-banking system has to be properly qualified for that post and has the sufficient experience of handling the system efficiently. With the event in technology and up gradation of the system the bank staff handling the system must tend regular training. The expert within the information Technology is required to be called by the banks so as to supply training to the staff and to coach the staff regarding handling of the e-banking system.

Conclusion

Today, Banking frauds could be a critical issue before the Country. But the pace of development for a good mechanism to fight it, is negligible. Banking frauds affect the fashionable quality of life and imposes a detrimental effect on the national growth. Variety of strategies will be developed by RBI and Government of India to curb the menace of Banking Frauds. However, these strategies can only be effective if they strengthen the event of a more practical banking industry, in fact, within the industry fraud is one in every of the areas which require immediate urgent attention. , the study finds that there's no comprehensive law on the threat like Banking Frauds. There are certain legislations which individually handle the Banking Practices and Frauds. The utilization of Banking services in the nature of electronic transactions like bank automation. Cheque Truncation System (CTS), MICR Cheques, Plastic Cards (ATM/Debit/Credit/Smart), Digital Wallet, Electronic Purse, Tele Banking, Mobile Banking, Cyber Banking i.e. EFI, ECS, EDI, RTGS, CBS, INFINET, BANKNET, RBINET, I-net, SWIFT, NICNET etc. are the most areas where the fraudsters are devising new ways of committing Banking Frauds. Forthrightly speaking, these recent emerging areas have made the task of enforcement agencies harder because in majority of those cases, the violations become difficult to be detected and therefore the violators are hard to be traced. In 21st Century, the many challenges faced by the banks have necessitated to re-evaluate the legal strategies and processes so as to stay active within the dynamic environment. An analytical perusal strongly reveals that the banking industry, thus, is facing challenges from the developments happening in society and from the revolution caused by neo-scientific technology. The 19th Century laws meekly supported by the 21st Century piecemeal legislations are incapable of holding the guard against the constant attack of Banking Frauds. Hence, the requirement of implementation of suggestive measures, further futuristic research and expert guidance on the difficulty of Banking Frauds cannot be disagreed with.

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